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SUBJECT: ATPDEA Still Key to Many Ecuadorian Industries and Jobs

¶1. (U) Ecuador has benefitted substantially from the Andean Trade Preference Act (ATPA) program since its inception in 1991. ATPA currently provides duty-free access to the U.S. market for approximately 5,600 Ecuadorian products. According to GoE estimates, approximately 350,000 jobs are tied to ATPA exports. Although loss of ATPA privileges would considerably degrade some key industries, such as cut roses, it appears other industries, such as fresh mangoes, would retain duty free access through the General System of Preference (GSP) program or be able to reorient towards other foreign markets (pineapple). This cable provides a brief overview of ATPA's impact on Ecuador's economy and key sectors it influences to inform the debate about renewal/extension.

#### General Trade Overview

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¶2. (U) As reported in the Fourth Report to Congress on the ATPA as Amended by the Office of the U.S. Trade Representative, 2008 two-way trade between the United States and Ecuador totaled US \$12.5 billion, resulting in a US \$5.5 billion bilateral trade deficit for the United States. The United States is Ecuador's largest export market, absorbing approximately 48 percent of Ecuador's US \$18.5 billion in exports in 2008. In 2008, Ecuadorian exports to the United States were valued at US \$9 billion, up from US \$6.1 billion in 2007, largely due to higher oil prices. Crude oil accounted for 81 percent of Ecuador's 2008 total (both ATPA and non ATPA) exports to the United States.

¶3. (U) The United States is also Ecuador's top supplier of imports, providing 19 percent of its total imports in 2008. Ecuadorian imports of U.S. products in 2008 totaled US \$3.5 billion, up from US \$2.9 billion in 2007. Top categories for U.S. exports to Ecuador were machinery (24 percent of exports), petroleum products (15 percent), electrical machinery (10 percent), plastic (9 percent), and paper and paperboard (5 percent).

#### ATPA Trade Overview

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¶4. (U) According to U.S. International Trade Commission statistics, Ecuadorian exports under ATPA were a modest US \$34.3 million in 1993, the first year in which Ecuador was a program beneficiary. Ecuador's ATPA exports grew to US \$177 million in ¶2002. Imports under ATPA jumped to US \$1.6 billion in 2003, the year following President Bush's renewal and expansion of ATPA with the Andean Trade Promotion and Drug Eradication Act (ATPDEA). ATPDEA added new export products to the preference program, including petroleum, tuna and textiles and apparel which contributed substantially to the increase in Ecuador's ATPA benefits. For the following discussion, ATPA refers to both ATPA and ATPDEA programs although different products qualify under each one.

¶5. (U) In more recent years ATPA exports from Ecuador have continued to grow. ATPA exports from Ecuador increased 43 percent between 2007 and 2008, from US \$4.6 billion to US \$6.6 billion, and represented 73 percent of Ecuador's total exports to the United States in 2008. The increase resulted primarily from the 47 percent increase in petroleum-related exports to US \$6.2 billion, which accounted for 94 percent of ATPA entries from Ecuador in ¶2008. Non-petroleum-related exports under the ATPA from Ecuador fell 1 percent, from US \$378 million in 2007 to US \$373 million in ¶2008. This included exports of cut flowers, the second largest export under the ATPA from Ecuador, which fell 7 percent to US \$133 million. Other important exports under the ATPA from Ecuador in 2008 were tuna (US \$74 million), up 8 percent over 2007; vegetables, including frozen broccoli (US \$43 million), up 22

percent; vegetable and fruit preparations (US \$28 million), up 22 percent; and fruits, primarily fresh pineapples, fresh mangoes, and frozen fruits (US \$27 million), down 13 percent.

¶6. (U) Ecuador estimates that ATPA has generated 350,000 local jobs in an employed population of 6.15 million people (both rural and urban) meaning approximately 6.15 percent of employment in Ecuador is influenced by ATPA. Anecdotal information suggests that the total number of ATPA related jobs has likely fallen in 2009 due to decreasing ATPA exports in response to the global economic downturn.

#### Key ATPA Industries

¶7. (U) Below are synopses of key Ecuadorian industries that benefit from ATPA. Unless otherwise noted, values of ATPA exports are taken from the United States International Trade Commission (USITC). Statistics on Ecuador's overall exports and other foreign markets are taken from Ecuador's Central Bank data.

#### Industry ATPA Exports in 2008

1) Petroleum  
US \$6.2 billion

2) Flowers  
\$133.0 million

US

3) Tuna  
US \$83.0 million

4) Broccoli  
US \$20.9 million

5) Plywood  
US \$17.4 million

6) Pineapple  
US \$12.6 million

7) Mangos  
US \$11.5 million

8) Textiles and Apparel US  
\$10.5 million

9) Aluminum  
US \$6.8 million

#### Petroleum

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18. (SBU) In 2008, Ecuador exported a total of 127.3 million barrels of oil, 62 percent of which were destined for the United States. Other leading export markets were Peru (14 percent), Chile (13 percent), Panama (3.6 percent) and China (3.2 percent). Oil remains Ecuador's largest export under ATPA. In 2008, petroleum products accounted for US \$6.2 billion of Ecuador's total US \$6.6 billion in ATPA exports. Petroleum exports under ATPA for 2009 have decreased, down to US \$1.4 billion from January through August compared to US \$4.6 billion in the same period in 2008. Although

oil extraction is concentrated in the rural northeast of Ecuador where steady employment is scarce, it provides relatively few jobs for unskilled laborers given that it is a capital intensive industry. Without the ATPA program, Ecuadorian oil exports to the U.S. would face a US 5-10 cent per barrel tariff. At current oil prices for Ecuadorian crude of around US \$70 per barrel (Ecuador's Oriente 30 trades at a US \$5 - 15 discount per barrel from the West Texas Intermediate price due to high sulfur content), the prospective U.S. tariff is a mere 0.07 percent to 0.14 percent. Petroleum exports are not eligible for duty-free treatment under the GSP program.

#### Flowers

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19. (U) ATPA has driven the Ecuadorian flower industry's rapid growth to one of the world's leading exporters. Historically, the U.S. has been the major consumer of Ecuadorians flowers. From 2006-2008, the U.S. accounted for 64 percent of Ecuador's flower exports. Under ATPA, Ecuador's flower cultivation has grown from 286 hectares in 1991 to 6,000 hectares in 2008. According to GOE statistics, Ecuador's total flower exports increased from US \$34 million in 1992 to US \$633 million in 2008. Despite these successes, the industry has recently fallen on hard times and is facing tight profit margins. The U.S. imported US \$133 million in Ecuadorian flowers under ATPA in 2008, 57 percent of which were roses. This represented a noticeable decline from 2007 (US \$143 million) and 2006 (US \$141 million). Figures for January through August suggest a decline of 8.4 percent in 2009 from the same period in 2008. According to Central Bank of Ecuador (CBE) year-on-end data for 2009, the U.S. accounts for 43 percent of Ecuador's rose exports, followed by Russia at 20 percent, Holland at 15 percent, and Italy at 3 percent.

¶10. (U) Challenges to Ecuador's flower industry include increasing labor and transportation costs, and foreign competition (especially from Colombia, the world's largest flower exporter, and new players such as Kenya). Ecuador's use of the U.S. dollar and an increase in the minimum wage in 2007 have made Ecuador less competitive by saddling it with the highest labor costs of any flower producing developing nation. The monthly compensation package for a flower worker is over US \$400. An additional increase in the minimum wage, a Correa initiative, would force most farms to reduce their work force. Industry analysts estimate that 15,000 jobs have been lost this year and that 30 percent of farms are loss making, staying open only to avoid separation payments to their workforce if they were to close. Ecuador's Social Security Administration estimates that the flower industry employs 115,000 workers, although industry analysts put the number closer to 80,000. Flower production is concentrated in the mountainous provinces of Pichincha and Cotopaxi along the roads to Quito. The majority of workers come from rural villages or small towns. Sixty percent of flower workers are women. Ecuador's rose exports are not eligible for duty-free treatment under the current GSP program. Elimination of ATPA would prompt a number of Ecuador's rose farms to close. Ecuadorian growers have indicated that it would be very difficult to transition to other flower varieties that are eligible for duty-free treatment under the GSP program, such as carnations, given Colombia's lower wage bill and established dominance in the market.

Tuna

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¶11. (U) Seafood exports (including crab and other crustaceans) are Ecuador's second largest overall (including non-ATPA covered fish) export to the U.S. after petroleum products. Ecuador's total world fish exports in 2008 were US \$1 billion, with tuna accounting for 75 percent. ATPA benefits "pouch tuna" and packaged bulk tuna exports, which are Ecuador's third largest export to the U.S. under

ATPA after petroleum and flowers. Pouch tuna is a crucial export product for the overall competitiveness of the Ecuadorian tuna industry because it has the highest value-added of all tuna exported by Ecuador and thus helps determine the prices of other qualities of tuna. In 2008, Ecuador exported US \$83 million worth of pouch tuna under ATPA. However, in the first half of 2009, Ecuador's tuna exports to the U.S. decreased precipitously to US \$40.4 million (January through August), versus US \$72 million for the same period in 2008. The largest providers of pouch tuna to the United States are Thailand and the Philippines, which together hold about 63 percent of the U.S. pouch tuna market.

¶12. (U) Employment in the tuna industry is concentrated in the coastal regions, with 60 percent of the tuna industry located in Manta, 25 percent in Posorja, and the remainder in Guayaquil. The tuna sector provides 31,000 direct and 58,000 indirect jobs. The Manta Chamber of Commerce estimates that approximately 90 percent of the Manta economy depends upon industrial and small scale fishing. Tuna processing is labor intensive as machines are not practical for skinning and processing fish. The vulnerability of employees is high with few substitute jobs available for tuna workers in an industry downturn. The majority of factory workers are women. Pouch tuna exports from Ecuador would not be eligible to enter the United States duty-free under the GSP program.

Broccoli

¶13. (U) The U.S. is the largest consumer of Ecuadorian broccoli. In 2008, the U.S. imported US \$20.9 million in Ecuadorian broccoli under ATPA, down from US \$22.4 million in 2007. However, year-to-date ATPA exports for 2009 of US \$14.7 million (versus US \$13.4 million in 2008) indicate Ecuadorian broccoli exports under ATPA may be rebounding. According to Central Bank statistics, total Ecuadorian exports of broccoli were US \$56.9 million in 2008, up from US \$38.9 million in 2005. CBE statistics indicate that exports to the United States under ATPA represented about 37 percent of Ecuador's total broccoli exports. If ATPA preferences were eliminated, exports of frozen broccoli to the United States would face an ad-valorem tariff of 14.9 percent. Mexico and Guatemala are seen as potential substitute suppliers to the U.S. The U.S. market is particularly important for Ecuadorian producers as it absorbs broccoli stalks which are not in high demand in other foreign markets.

¶14. (U) Currently Ecuador has 3,500 hectares under broccoli cultivation, with 80 percent of farms located in the mountainous Cotopaxi province near Quito. Value added is contributed by the individual quick frozen process. Broccoli is exported as "conventionally grown" as well as "organic" in packages containing florets with stalks included, florets pieces with stalk cubes, or stalks alone. The sector employs 2,000 farm workers with an additional 2,000 full-time jobs in processing and 4,000 indirect jobs in transportation and services. Broccoli exports from Ecuador are not currently eligible for duty-free treatment under the GSP program.

#### Plywood

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¶15. (U) Ecuador is the ninth largest supplier of plywood to the U.S. market, far behind leaders China, Canada, Russia and Brazil. Industry contacts indicate that the U.S. remains the major export market for Ecuadorian plywood at 75 percent of total exports. Other consumers include Mexico (15 percent), Venezuela (5 percent) and Colombia (3 percent). Ecuador's plywood ATPA exports totaled US \$17.4 million in 2008, up from US \$15 million in 2007. January through August 2009, exports of Ecuadorian plywood entering the

United States under ATPA were down 1.5 percent versus the same period in 2008. Ecuador's five main plywood companies produce about 144,000 cubic meters yearly with a value of US \$24 million. Ecuador's plywood industry is mainly concentrated in Esmeraldas Province (an area of elevated narcotics activity along Ecuador's northern border) and employs about 2,000 unskilled workers directly and 8,000 indirectly. Local plywood production has been negatively affected by labor and tax reforms implemented by the GOE, which according to industry players have reduced previous profit margins of 50 percent to 7 - 10 percent. The GOE's proposed tax reform and a possible increase in minimum wage could reduce profitability further. Ecuador's exports of plywood are eligible for duty-free treatment under the GSP program.

#### Pineapple

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¶16. (U) The United States is the leading export market for Ecuadorian pineapple, accounting for 33 percent of Ecuadorian pineapple exports in 2008. The majority of Ecuadorian pineapple (98 percent) enters under ATPA. Spain is the second largest importer of Ecuadorian pineapple at 19 percent of exports, followed by Belgium at 15 percent. Total Ecuadorian exports of pineapples amounted to US \$36.6 million in 2008, up from US \$30.9 million in ¶2005. Ecuador's ATPA exports continue to grow. ATPA 2008 pineapple

exports totaled US \$12.6 million, up from US \$11.4 million in 2007. The positive trend appears to be continuing in 2009 with ATPA exports January through August totaling US \$8.9 million compared to US \$6.6 million in 2008.

¶17. (U) The elimination of ATPA benefits would result in a modest tariff of 1.1 cents/Kg which, although it would reduce profits, would not likely destroy Ecuador's pineapple industry. Costa Rica and Honduras are potential substitute suppliers to the U.S. if ATPA is terminated. Ecuador has 3,300 hectares of pineapple, located mainly in the central, landlocked provinces of Los Rios and Santo Domingo de Los Tsachilas. Plantations farming the super sweet variety pineapples marketed to the U.S. employ 1.02 persons per hectare. Analysts estimate the pineapple sector provides approximately 3,366 direct farming jobs, 26,500 temporary jobs in packaging and processing and 5,900 indirect jobs in services, management, and transportation. Ecuador's pineapple exports are eligible for duty-free entry into the United States under the GSP program. Additionally, high demand for pineapple on the world market means the Ecuadorian industry would likely survive the loss of ATPA privileges.

#### Mangos

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¶18. (U) The United States is the leading export market for Ecuadorian fresh mangos with 75 percent of Ecuadorian mangos entering under ATPA. Some processed mango products do not qualify under ATPA. In 2008, ATPA exports of mangos from Ecuador totaled US \$11.5 million, down from US \$15.6 million in 2007. Figures for January through August 2009 indicate mango exports have decreased by 37 percent versus the same period in 2008. Ecuador's overall export of mangoes was US \$15.8 million in 2008, down from US \$17.8 million in 2005. The United States accounts for about 73 percent of Ecuador's total mango exports. The second largest importer of Ecuadorian mangos is Canada (9 percent) followed by Colombia (6 percent).

¶19. (U) Currently, Ecuador has 7,000 hectares of mango under cultivation, up from 5,500 hectares in 2005. Farms are located mainly in the coastal province of Guayas (90 percent) and central province of Los Rios (10 percent). Products include fresh mangos, mango puree, individual quick frozen (IQF) cubes, and dried mango.

Fresh mangos are exported as conventionally grown or organic. Ecuador has five hydrothermal treatment plants that ensure the elimination of fruit flies and allow mangos to meet phytosanitary regulations. This procedure shortens shelf life and, analysts say, would complicate transport to more distant markets, like Europe. Mango cultivation employs three workers per hectare and estimates are that the sector provides 21,000 direct farming jobs, 3,000 temporary jobs in processing and packaging, and 7,200 indirect jobs in services, management, fertilizing, and transportation. Mangos from Ecuador would be eligible for duty-free treatment under the GSP program if ATPA ended. Ecuador's competitors for the U.S. mango market include Mexico, which has a similar growing season and duty-free status under NAFTA, Peru and Brazil.

#### Textiles and Apparel

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¶20. (U) In 2008, Ecuador exported US \$10.5 million in yarn, thread, cloths, and finished clothing to the United States under ATPA, accounting for approximately 85 percent of total textile



exports to the United States from Ecuador. The United States is one of Ecuador's major textile consumers, accounting for approximately eight percent of Ecuador's total textile exports in 2008. Other top export markets are Colombia (US \$42 million in 2008) and Peru (US \$8 million). Local producers have commented that uncertainty about the continuation of ATPA has forced them to reduce inventories and withhold investment. Ecuadorian ATPA textile exports for January through August 2009 were US \$4.7 million, down from US \$6.8 million in the same period in 2008.

21. (U) Textile producers estimate the sector provides 28,000 direct jobs and 112,000 indirect jobs. Rough estimates from industry studies indicate that textile exports to the U.S. under ATPA provide 2,000 of the sector's direct hire jobs and approximately 8,000 of the indirect jobs. More difficult to assess is the sizeable number of Ecuadorian jobs tied to the production of thread, yarn and cloth that are exported to Colombia and Peru for inclusion in finished products exported from those countries to the United States under ATPA. Elimination of ATPA or removal of Ecuador from ATPA would pose significant problems for the textile and apparel sectors in Colombia and Peru, which are able to "accumulate" Ecuadorian inputs toward the 35% local origin rule under ATPA. Local producers estimate that in 2008, US \$7.5 million worth of Ecuadorian textiles exported to Peru and Colombia were used as inputs for clothing which later entered the United States under ATPA. Ecuador's ATPA textile and apparel production also directly benefits U.S. cotton growers; all of the sector's cotton imports, valued at US \$19.5 million in 2008, come from the United States. Ecuador's textile production is primarily concentrated in urban areas such as Quito, Guayaquil, Cuenca, Ambato, Otavalo and Atuntaqui, with participation by indigenous groups in these last two locations. Ecuador's textile and apparel exports would not be eligible for duty-free treatment under the GSP program.

Aluminum

22. (U) Ecuador's ATPA exports of aluminum "profiles" (aluminum shaped and angled for construction and decoration purposes) to the U.S. have been hit hard by the global crisis. ATPA exempts Ecuadorian aluminum from a 5 percent import tariff. Local manufacturers have indicated that the loss of ATPA benefits could surrender Ecuador's U.S. market share to China and Canada. However, aluminum profiles could also enter the United States duty-free under the GSP program.

23. (U) Ecuador's ATPA aluminum profile exports increased drastically during the housing boom in the U.S. from US \$6.7 million in 2004 to a peak of US \$21.9 million in 2006. The U.S. subprime mortgage crisis and a decline in international aluminum prices reduced ATPA exports to US \$10.7 million in 2007 and US \$6.8 million in 2008. ATPA exports for 2009 continue the downward trend with exports January through August totaling US \$2.9 million versus US \$4.7 million in 2008. Aluminum profile production is labor intensive. Ecuador's sole aluminum profile exporter to the U.S., which hired 700 employees during the boom years of 2003-2006, has laid off 200 employees in the past two years due to decreased demand.

Comment

¶24. (SBU) ATPA has been pivotal in providing over 350,000 Ecuadorians with jobs and the opportunity to escape poverty and/or the allure of illicit activities. The duty-free access provided by ATPA has been crucial in enabling certain covered products from Ecuador to compete in the U.S. marketplace, given their very low profit margins. ATPA has produced concrete economic gains in Ecuador but, without a sustained program, it will be difficult to maintain, let alone expand, on these gains. Recent GoE policy announcements on compulsory licensing and possible termination of bilateral investment treaties, including with the United States, have raised concerns about the Ecuadorian government's intentions regarding our bilateral commercial relations, but support of and appreciation for the ATPA among the Ecuadorian population remains very high. Should ATPA be terminated or Ecuador be exempted from the program, we would lose an important, positive element in our relationship with the Ecuadorian people.

HODGES